Presidency report

Towards a forward-looking and flexible Multiannual Financial Framework

30 May 2016

The discussion on reforming the Multiannual Financial Framework (MFF) comes at a crucial time: circumstances are changing rapidly and the scheduled evaluation of the current MFF and negotiation of the next MFF are approaching. The need to reform the MFF is both obvious and challenging. It is obvious because the multiple crises facing Europe are forcing us to reconsider priorities and exposing the limitations of the current framework. It is challenging because of the delicate balance of interests reflected in the budget.

The Netherlands Presidency is taking place at a time when negotiations are still ahead of us. Discussions on the MFF are being held at an early stage of the process and member states therefore have more freedom in adopting their positions. The Presidency has held various discussions on the MFF and the post-2020 framework. On 28 January it hosted a high level conference on the MFF, welcoming over 150 participants from across the EU.[1] The discussion was followed up at the informal meeting of the General Affairs Council (GAC) on 11 and 12 April, and the informal meeting of the Economic and Financial Affairs Council (Ecofin) on 22 and 23 April.

This report summarises the results of these meetings and provides an overview of the discussions held. It also offers suggestions for continuing to explore reform options.

Results of the discussions

The general view is that the MFF should be forward-looking and flexible, and strike the right balance between providing the necessary stability for investing in Europe's future and being able to adapt to new and unforeseen priorities.

More detailed discussions showed that there are various ideas on the substance of the MFF. These ideas can best be set out under the following headings:

- European Added Value: there is broad support for the principle that the MFF should provide European Added Value (EAV).
- Structure of the MFF: many ideas shared relate to the MFF's structure, which should be aligned with European strategic priorities.
- Flexibility: without losing track of the necessary stability for investments in the EU budget, a flexible budget is crucial in an ever-changing world; changing circumstances demand changing policies, and different policies demand different funding.
- Link between income and expenditure: the conference supported the notion that changes on the income side of the budget should be closely linked to changes on the expenditure side.

[1] *The results of the Presidency conference have been summarised in the attached Amsterdam Map. This map lists the various principles for the future MFF that were presented by participants. The full report of the conference may be downloaded on the Presidency website: www.eu2016.nl.*

European Added Value

In many of the discussions held, it was stated that the MFF should focus on generating maximum added value. There is broad support for a budget that provides European Added Value. However, the various discussions held in recent months have shown that the lack of a clear definition makes it difficult to apply the principle to the MFF. While some state that the current MFF provides enough added value, others stress the need to find a definition that is truly European – transcending national borders. The prominence of this principle in the discussions is testament to the wish to have a clear basis for the MFF. Focusing the MFF on European Added Value means that the Council should first determine what is meant by European Added Value.

Structure of the MFF

Many provisions in the Amsterdam Map[2] created on the basis of the Presidency conference relate to the structure of the MFF. There is broad support for aligning EU spending with the EU's strategic priorities. On a general note, the structure of both the current and future MFF should focus on traditional priorities such as growth, agriculture, solidarity and convergence. At the same time, the MFF should strike a balance that enables the EU to respond to unpredictable events, which are sure to occur over the course of an MFF. An approach that differentiates between short-term and long-term priorities may be the way forward, as a means of prioritising between known and unforeseen priorities. Finally, the subsidiarity principle is widely acknowledged to be a cornerstone of the MFF.

Flexibility

Flexibility has featured prominently in all discussions during the Netherlands Presidency. While the current MFF includes a number of instruments for flexibility purposes, these instruments have already been used to a large extent. In the face of enduring crises, new solutions such as the EFSI and the Turkey Refugee Facility have been found, yet the challenges remain. The available flexibility (0.36% of the budget) stands in stark contrast to the size of these challenges.

During the informal Ecofin ministers reflected upon the ability of the current MFF to respond to unforeseen challenges and expressed openness to examine possible improvements. Especially the large and unforeseen influx of migrants calls for creativity to enhance the ability of the current MFF to incorporate unforeseen expenditures. Most member states indicated that this should be done while respecting the current MFF ceilings. In general, the MFF should balance stability for long-term priorities with flexibility to respond to unforeseen events.

There are various ideas on how to increase flexibility, subject to debate. Reallocation between headings – for example from headings with low implementation to headings with high implementation – is one such idea. Increasing the overall budget is another option. But it was also stated that flexibility should not require extra expenditure by the member states, so using fines for extra budgetary space and making it easier to work with other financing institutions to make better use of the EU budget are two further options. In general, discussions have shown support for increased margins within the MFF and within the ceilings, as another way of making the budget more flexible. Such flexibility would have to be subject to clear procedures. Overall, if enough flexibility is ensured, the next MFF will not need a different duration. The Commission will take the views of member states into account when preparing the mid-term review of the MFF.

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Own resources

Although the own resources system did not feature prominently in all the discussions, the notion from the conference that reforming the expenditure side of the budget must go hand in hand with reforming the income side has refocused the objectives of the High Level Group on Own Resources (HLGOR) of former Commissioner Monti.

Way forward

The meetings held during the Presidency have been marked by a broad willingness to engage in open and frank discussion on reform options. Overall, the discussions reflect a broadly shared wish to reconsider the MFF and to discuss reform without discarding what works in the current framework. There is also support for focusing on the goals of the MFF and the policies it funds first, before looking at the instruments for financing them. An open mind-set from all participants, enhanced by innovative discussion formats, provided the basis for a productive exchange of ideas. The wish for an improved MFF is felt across the board and there is widespread awareness that we need to use the time ahead to continue this discussion.

There are several key points on the horizon, starting with the mid-term review of the MFF, the revision of the Financial Regulation and the presentation of the HLGOR's final report. While the mid-term review and the HLGOR report can also provide input for the post-2020 MFF, the revision of the Financial Regulation will probably see the first concrete ideas implemented to increase flexibility in the current MFF.

Despite this already heavy agenda, which includes negotiations on the 2017 annual budget, the incoming Presidency has announced that it will address the post-2020 MFF at its informal GAC and at a special conference. Both are important opportunities to continue exploring reform, making optimum use of the time remaining until the Commission proposal for the next MFF.

Throughout this period it is vital to keep sight of our objective – to achieve an improved and reformed MFF by the end of our negotiations in 2020. The first productive steps have been taken, and the next steps have been identified. We need to continue work on the meaning and implications of the principles we support, to continue exploring different ways of achieving a better MFF and to continue our frank discussions on how the budget can deliver results for our citizens.